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A cable TV balancing act

State cable TV regulators have a delicate balancing act ahead of them: trying to force cable TV companies to provide better service and become more responsive to customer complaints while not driving up cable rates.

There's no doubt that dealing with your local cable company can be a deeply frustrating experience. Hundreds of subscribers across the South have complained to local selectmen and cable committees in recent months, telling of unconscionable phone delays in trying to reach a customer service representative or waiting for a service call at home. Others have complained about high-pressure telephone marketing practices. Statewide, complaints against cable operators filed with the Department of Telecommunications and Energy doubled last year.

In response, the state has proposed new regulations that would, among other things, require cable companies to answer all customer service telephone calls within 30 seconds, day or night; to make installations in the evening and on weekends, and within one week of a request, and to disclose the full terms of any sales offer.

Many subscribers will welcome such regulations—and the stiff monetary penalties that would be imposed for violations. Unless, of course, they result in higher rates. That's just what cable operators say is likely to happen.

At a state hearing this week, Glen Dawes of Pembroke-based Harron Communications, which has 30,000 subscribers in four South Shore towns, said having to staff his office 24 hours a day to answer the phone would "impact rates dramatically."

It's obvious that the effect of such regulations can be quite different on a small company like Harron (which incidentally had just three complaints filed against it with the state last year) and giants like MediaOne or Time Warner.

At the same time, customers have a right to expect that complaints will be answered promptly, that installations and repairs will be scheduled at times convenient for working people, and that they will not have to put up with aggressive, misleading sales pitches. But rigid, one-size-fits-all regulations may not be the best way to achieve that.

One way to improve cable service is through competition, an option that hasn't been available until now. But with changes in technology and coming deregulation, competition is looking like a possibility, at least for the more densely populated suburbs. One company, RCN, has expressed interest in competing against established cable providers in half a dozen South Shore communities.

Consider the outcome in Somerville, where RCN began competing with Time Warner in January. Somerville was the only Massachusetts community Time Warner operates in where it didn't ask for a rate increase this year. And a Somerville official told the Quincy City Council last month that Time Warner has become a better company, with fewer customer complaints, since the coming of competition.

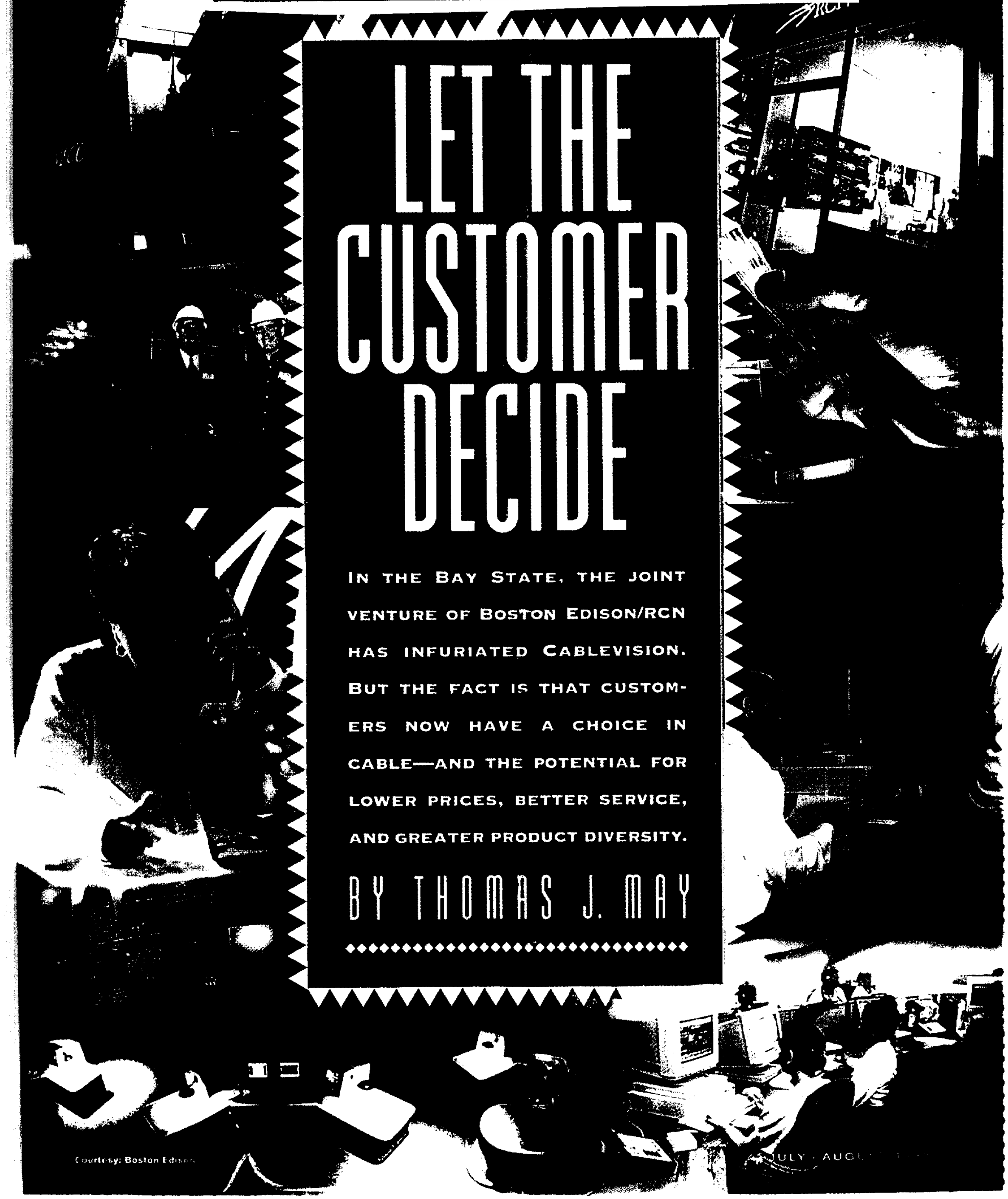
If new state regulations are adopted, they must be flexible enough not to impose an undue hardship on small existing cable operators or to inhibit the competitive atmosphere in which market forces can result in better, cheaper service.

EXHIBIT C

Boston Edison Newspaper Article

JULY • AUGUST 1998

ELECTRIC PERSPECTIVES

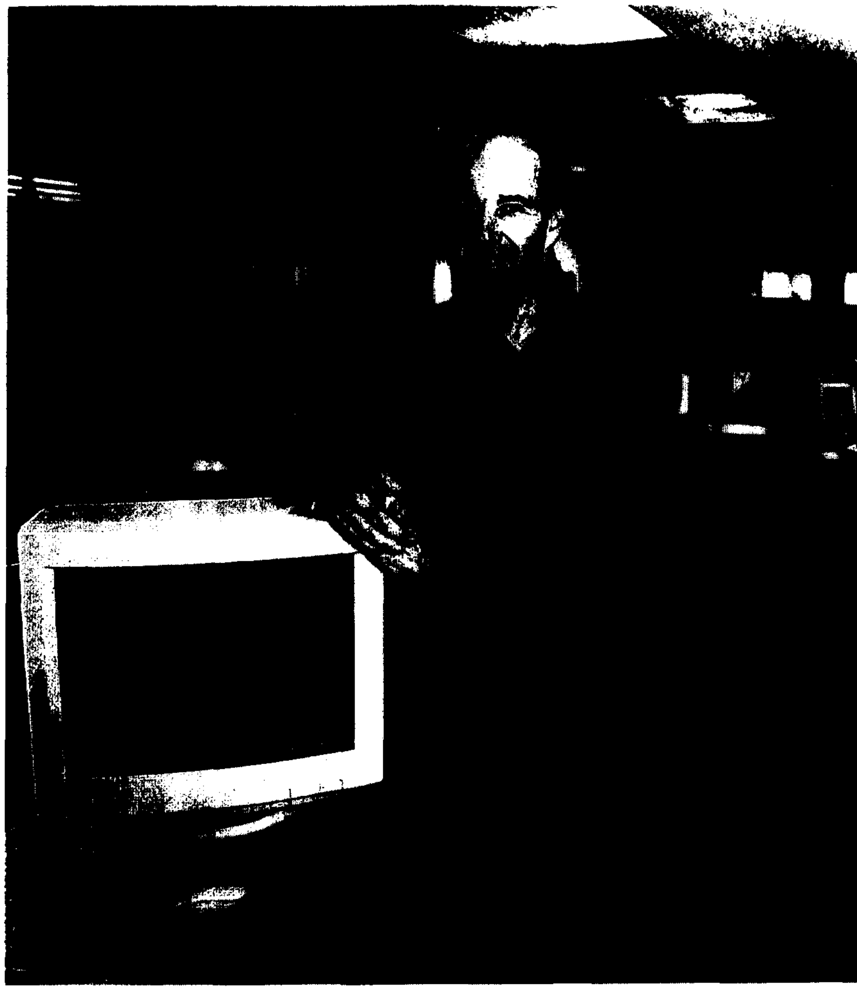


Courtesy: Boston Edison

LET THE CUSTOMER DECIDE

IN THE BAY STATE, THE JOINT VENTURE OF BOSTON EDISON/RCN HAS INFURIATED CABLEVISION. BUT THE FACT IS THAT CUSTOMERS NOW HAVE A CHOICE IN CABLE—AND THE POTENTIAL FOR LOWER PRICES, BETTER SERVICE, AND GREATER PRODUCT DIVERSITY.

BY THOMAS J. MAY



Courtesy Boston Edison

Executive and customer. CEO Tom May and a map of Somerville, which already enjoys benefits from the Boston Edison/RCN venture.

As electric companies seek new revenue opportunities in nontraditional businesses, be aware that when you step on someone else's turf, the reception may be less than cordial. If that turf just happens to be one that has not known competition, expect that any and all tactics will be used to delay or prevent competition from upsetting the status quo. At Boston Edison, as our joint venture with RCN Corporation contends with the entrenched cable TV operators in the Greater Boston area, we know that from experience.

Nationwide, federal, state, and local government officials must see these tactics for what they are and resist the temptation to restrict entry into the marketplace. The freedom of formerly regulated utilities to move into nontraditional enterprises must not be hindered in the mistaken belief that competition is being protected. Indeed, if the regulatory structure is used to handicap utilities, the results may benefit selected competitors—not competition—and actually delay or eliminate the benefits of industry restructuring to consumers. As energy companies venture into the competitive world, the consumer alone must have the opportunity to decide the winners and losers.

As I told the *New York Times* during an interview about industry restructuring, the big change is that customers now have choices they have never had before. Those choices in turn will reshape the economics of energy and many other industries. A metamorphosis of the electric utility industry from a totally regulated to a partially regulated one is already making a significant contribution to the consumers and the economy of Massachusetts. Electric rates for residential and business customers have been flat or declining during the last five years and will drop an additional 10-15 percent in 1998. As the competitive electricity market develops, those customers will see further reductions as they shop for suppliers. And as new and larger generation companies enter the energy market, the state will be powered by newer, cleaner, and more economically efficient plants. Over the next three years, for example, the new owner of Boston Edison's fossil-fueled power plants, Sithe Energies, plans to spend more than $1 billion to build new generation capacity in the Commonwealth.

Better still: In addition to reduced energy costs and a more competitive business environment, Massachusetts consumers are receiving expanded menus of products, services, and competitive pricing as electric companies develop opportunities for growth. Consumers are readily accepting newly created business ventures in voice, video, and data. Boston Edison, for one, has supported the new market as essential for innovative business strategies that introduce new technologies. This change in the business environment means consumers, communities, shareholders, and state economies will share the benefits.

But only if unnecessary obstructions are not permitted to retard progress or to prevent new players from entering new markets.

Tom May is chairman, president, and CEO of Boston Edison Company.

More Choice

As Boston Edison assessed its strategic opportunities in a restructured electric industry, we focused on our core business and what we do best, and we arrived at the logical determination that we were and would continue to be a wires-based delivery company.

We have always been a wires-and-pipes company, delivering kilowatts and (for many years) steam to consumers in the Greater Boston area. We have also operated a fiber-optic system that carries data for remote substation

THE FREEDOM OF FORMERLY REGULATED UTILITIES TO MOVE INTO NONTRADITIONAL ENTERPRISES MUST NOT BE HINDERED IN THE MISTAKEN BELIEF THAT COMPETITION IS BEING PROTECTED. INDEED, IF THE REGULATORY STRUCTURE IS USED TO HANDICAP UTILITIES, THE RESULTS MAY BENEFIT SELECTED COMPETITORS—NOT COMPETITION—AND ACTUALLY DELAY OR ELIMINATE THE BENEFITS OF INDUSTRY RESTRUCTURING TO CONSUMERS.

operations. So, entering the telecommunications business meant simply building on our more than a century of experience of delivering our product by wires. We enhanced that experience with the high-tech telecommunications expertise of RCN, a young facilities-based provider

The joint venture with RCN, announced in late 1996, is new, and so is what it brings to the market. It offers consumers a diversity of services including local and long-distance telephone, high-speed internet, and cable TV. We are delivering added value to our customers and continuing to do what we do best. The joint venture is a classic example of the convergence of energy and telecommunications resulting from the deregulation (or, perhaps more correctly, the reregulation) of both industries.

The Boston Edison/RCN strategy is to pursue an aggressive marketing campaign that will bring cable TV customer choice to Boston and 47 other cities and towns over the next three to five years. In less than two years, the venture has obtained open video system agreements and franchises in several communities, and system construction is underway in Boston, Somerville, and Arlington. The joint venture has been contacted by com-

WELCOME TO THE COMPETITIVE WORLD

As electric companies prepare to step into new area, they have to be ready for frantic protestations, even fabrications, from the old guard. Here, for example, is the myth and the reality of Cablevision System's allegations as they try to delay or stop the Boston Edison/RCN joint venture.

Myth: Boston Edison cheated its customers by diverting assets to RCN.

Reality: Boston Edison still owns the fiber-optic network. MCI and Teleport rent space on the system, and rental payments that exceed capital costs benefit Boston Edison customers. The joint venture and several other cable companies all pay the electric company the same pole attachment fees, which also benefits its customers.

Myth: Boston Edison/RCN has an unfair advantage over Cablevision.

Reality: Again, Boston Edison/RCN and Cablevision pay the same pole attachment fees. Moreover, Cablevision's system has been operating for several years in the Boston area, which has offered the cable operator an excellent opportunity to establish a reputation for price and quality of service. The joint venture is investing hundreds of millions of dollars to build a modern system and will have to win customers from the incumbent provider.

Myth: Profits or financial gains from the joint venture should be used to reduce electric rates.

Reality: Federal and state regulators have long held that unregulated investments should be completely separate from electric rates. The Massachusetts attorney general and Department of Telecommunications and Energy (DTE) require that electric customers be insulated from the risks of unregulated subsidiaries. Because joint venture investments were made by shareholders, electric customers cannot be affected by profits or losses that result. By investing their dollars in unregulated subsidiaries, the shareholders assume both the risk of the business and the potential profit from success. If electric customers are to benefit from investments in unregulated subsidiaries, then it is logical to assume they will also share in the financial burdens of unsuccessful subsidiary ventures—but that's simply not how it works.

Myth: Boston Edison has used electric customer money to construct the fiber system for the venture.

Reality: Boston Edison's fiber-optic system and the costs to construct it are not included in the electric company's electric rate base, period. Costs that are included in a utility rate base are a matter of public record, and DTE carefully scrutinizes all electric utility rates to ensure that all cost items conform with regulations.

In most communities nationwide, if cable customers are not happy with the price, service quality, or program offerings of their cable system, their only choice is to go back to the antenna or install a satellite system. But thanks to the Telecommunications Act of 1996 and the deregulation of the Massachusetts electric utilities, Boston Edison's joint venture with RCN has provided a truly viable option.

munity leaders from Springfield to Cape Cod, well beyond the Boston Edison electrical system territory.

The impact in the Bay State is noticeable. In general, the venture has received a hearty welcome from communities, local government officials, and customers who have grown weary of questionable telecommunications service and rapidly rising prices. After all, consumers today have a choice of what airline they fly, what bank they do business with, what telephone service they use, and what electricity producer they purchase kilowatts from. Now, as they sit before their TV set at home, they wonder why they don't have a say in which company delivers their TV programs. Why can't they tell their cable provider that they don't like the price or the quality of their service? Why can't they say that they demand the right to choose another cable company to bring their entertainment into their home?

With our presence in the market, Somerville, just outside of Boston, is now one of the first communities in the nation to offer residents a choice of where they get their cable service. No longer are they stuck with the take-it-or-leave-it approach to cable TV.

They are fortunate. In most communities nationwide, if cable customers are not happy with the price, service quality, or program offerings of their cable system, their only choice is to go back to the antenna or install a satellite system. But thanks to the Telecommunications Act of 1996 and the deregulation of the Massachusetts electric utilities, Boston Edison's joint venture with RCN has provided a truly viable option.

Crying Foul

Over the past few years, we have seen numerous electric companies create unregulated subsidiaries to market electricity, natural gas, and energy-efficiency programs. There are some ventures into telecommunications, but with the exception of a few, most of these have been limited in scope and generally involved only telephone service. The telephone industry by now is quite accustomed to competition. I believe the Boston Edison/RCN venture brings an entirely new perspective to electric utilities that are moving beyond their traditional field.

But you can't please all the people all the time. Cable TV companies don't cherish the idea of a new kid coming into town to take away their custom-

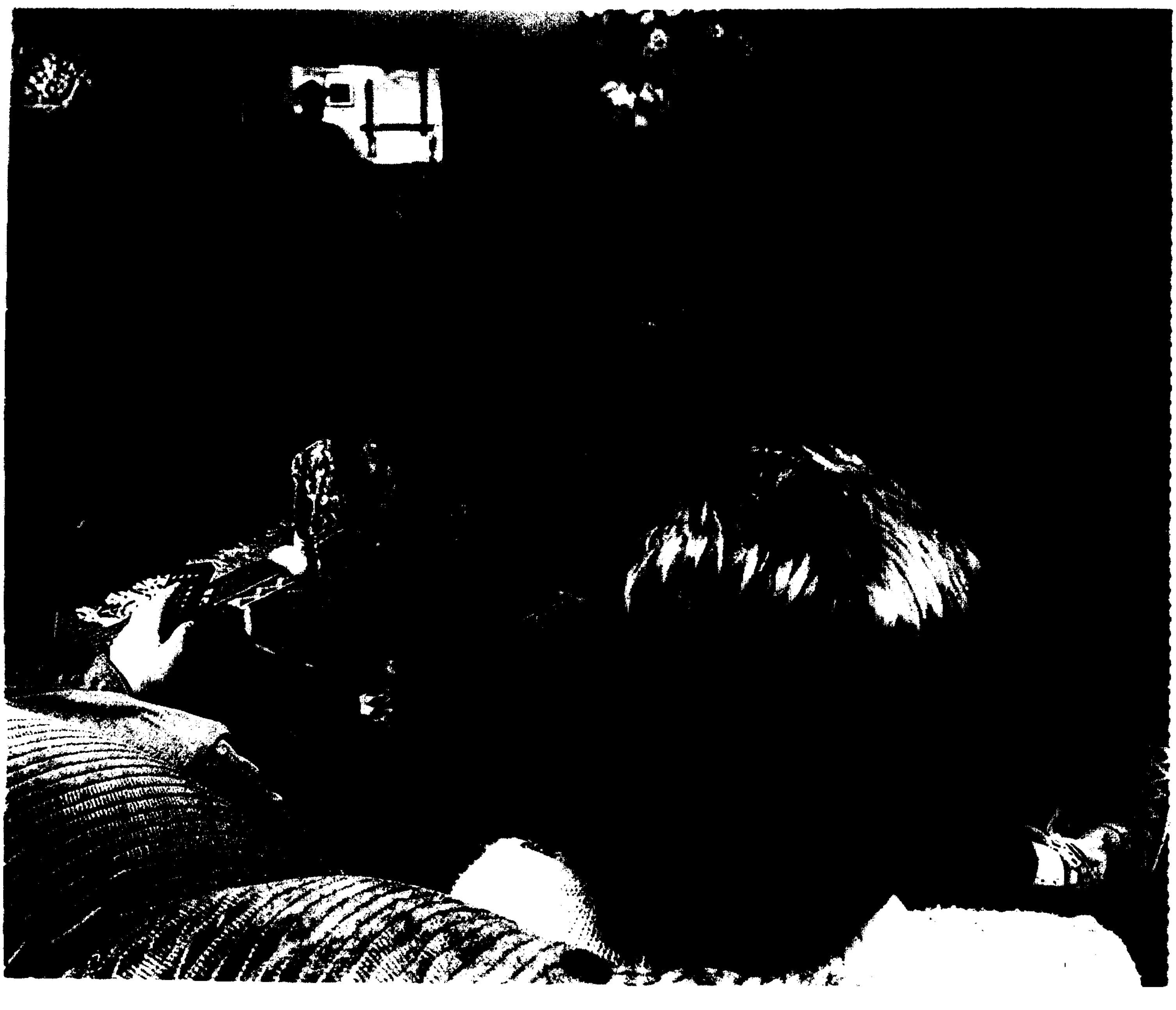
Ron Jautz / Folio

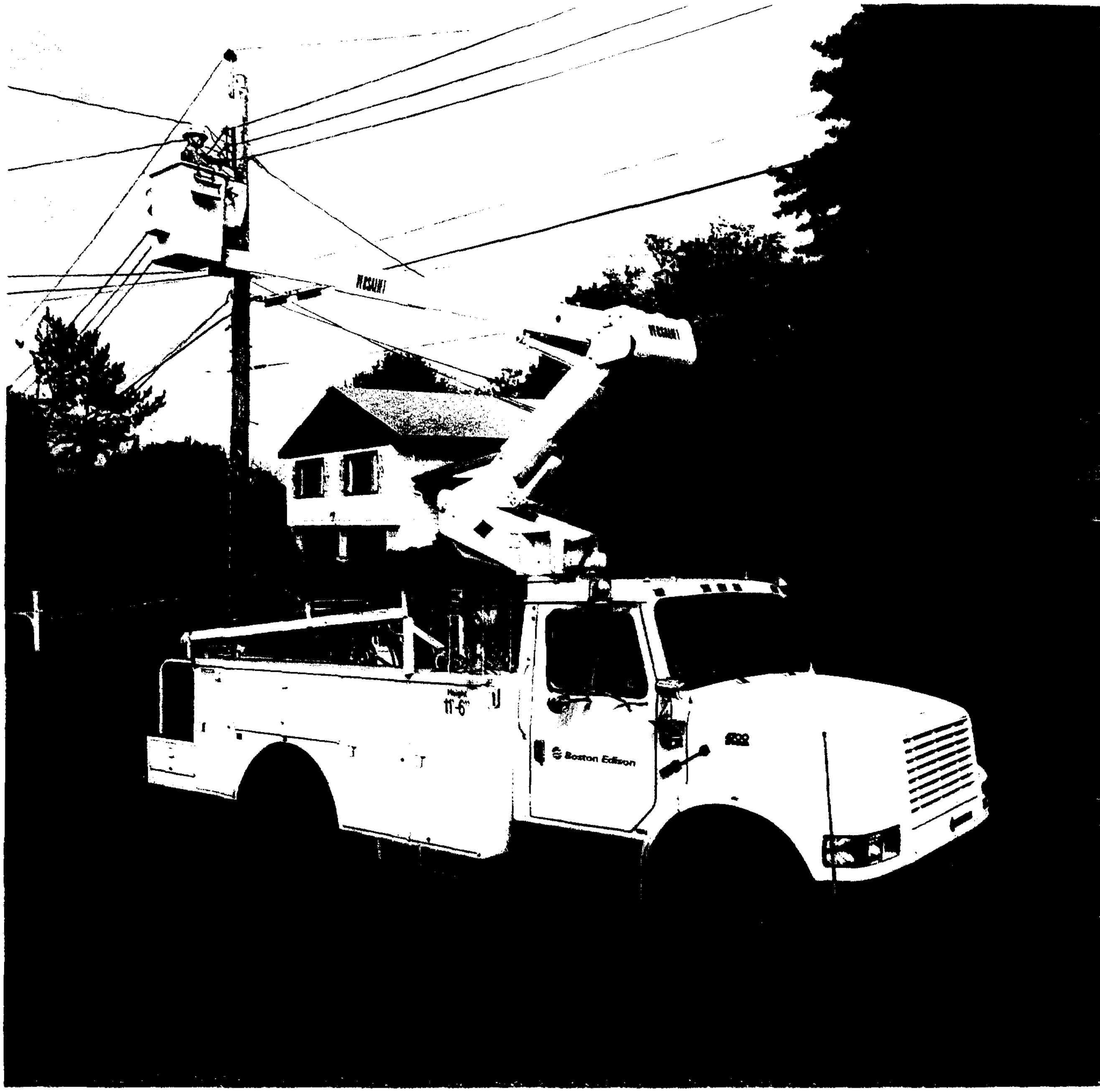
Captive audience. From April 1997 to April 1998, the rise in cable TV prices averaged 7.9 percent—over five times the inflation rate.

es—and that industry's reaction has been vocal and predictable—from its inception, the industry has rarely seen two cable operators doing business in the same community.

In the communities that do have more than one cable operator, the results could be unsettling for a turf-protecting industry. An article in the *Boston Herald* in December 1997 pointed out that Anne Arundel County in Maryland, for example, has had two competing cable companies for the past 10 years. Victor Sulin, the assistant planning director in Annapolis, says that compared to neighboring cable systems, the county's cable rates have been \$2-\$4 cheaper per month and service has been much better due to the competition. Most of us have been accustomed to having one electric company, one telephone company, and one cable TV company in our community. Due to technology and consumer awareness, we now have choice for buying electricity and telephone service and—sorry cable industry—also cable TV.

The Federal Communications Commission (FCC) estimates that consumers could experience a 20-50 percent price reduction in competitive cable TV markets. You can get an inkling as to why traditional cable TV providers are worried. The two largest incumbent cable TV providers in our area are Cablevision Systems and Time Warner, multiple system operators that, along with a handful of others, control about 87 percent of the market. (Direct broadcast satellite companies serve the balance.) If we assume the FCC's most conservative estimate of a 20-percent price reduction due to competition, Cablevision could see reduced





Courtesy: Boston Edison

Contrary to cable industry claims, Boston Edison's fiber system and costs to build it aren't included in the company's rate base.

revenues in the range of $280 million. Time Warner could see 1997 revenues of $4.2 billion drop by about $840 million.

Where there's competition, prices fall. Recently, Time Warner announced an average cable TV rate increase of more than 10 percent for the communities it serves in the Commonwealth. The exception was Somerville—where Boston Edison/RCN has a franchise and is rapidly completing a new fiber-optic delivery system.

The favorable consumer impact of competition in cable TV—in terms of both price and product—also has been demonstrated clearly in the Midwest. When Ameritech entered one Michigan community, Time Warner added 17 channels to its total package and dropped the package's monthly rate from about $66 to about $36. In an Ohio community, Cablevision added 20 channels to its package and reduced the rate from about $41 to about $32. With the advent of competition in two

Jackson Smith / Uniphoto

New services, new options. With the Boston Edison/RCN joint venture, customers have another choice in local and long-distance telephone service.

Michigan communities, incumbent cable provider Media One added 20 channels to its service, dropping rates from more than $53 to just under $33.

Cable Cabal

The cable TV industry has tried to use regulatory and legal tactics, coupled with an active media presence, in hopes of delaying or eliminating competition. In RCN's entry into both the Boston and New York City markets, for example, the company experienced difficulty in gaining access to programming owned or controlled by the large cable companies. In Massachusetts, Cablevision and Time Warner both filed for exemptions from price regulation, claiming that competition already exists. The real competition, of course, is the joint venture they continue to try to stop.

The fact that the electric utility industry has been reregulated and not totally deregulated has also provided the cable industry with additional opportunities to hinder competition. The cable providers tried to introduce language into the Massachusetts electric industry restructuring law to keep electric utilities from participating in telecommunications activities. This attempt was obviously in direct conflict with the 1996 Telecommunications Act.

In another manipulation of the regulatory process, the incumbent cable operators tried to intervene in the approval of the Boston Edison restructuring plan and of the formation of a Boston Edison holding company, which is required to implement the restructuring plan. Again, the cable industry has sought consistently to keep electric companies out of telecommunications.

Further, while the cable operators reached settlements on pole-attachment price increases with the other utilities in the state, they decided to pick a fight about Boston Edison's increase—the first in 25 years—and filed a complaint with the Massachusetts Department of Telecommunications and Energy (DTE). One cable operator, alleging a wide range of violations, has requested a DTE investigation into the Boston Edison/RCN joint venture.

It's the Customer

According to some in the media, the Boston situation is a brawl. In fact, it does tempt one to let the competitive juices flow and to develop a killer instinct. In launching its allegations, the cable industry has incorporated some pretty strong language, and we our-

IN MASSACHUSETTS, CABLEVISION AND TIME WARNER BOTH FILED FOR EXEMPTIONS FROM PRICE REGULATION, CLAIMING THAT COMPETITION ALREADY EXISTS. THE REAL COMPETITION, OF COURSE, IS THE JOINT VENTURE THEY CONTINUE TO TRY TO STOP.

THE FACT THAT THE ELECTRIC UTILITY INDUSTRY HAS BEEN REREGULATED AND NOT TOTALLY DEREGULATED HAS ALSO PROVIDED THE CABLE INDUSTRY WITH ADDITIONAL OPPORTUNITIES TO HINDER COMPETITION.

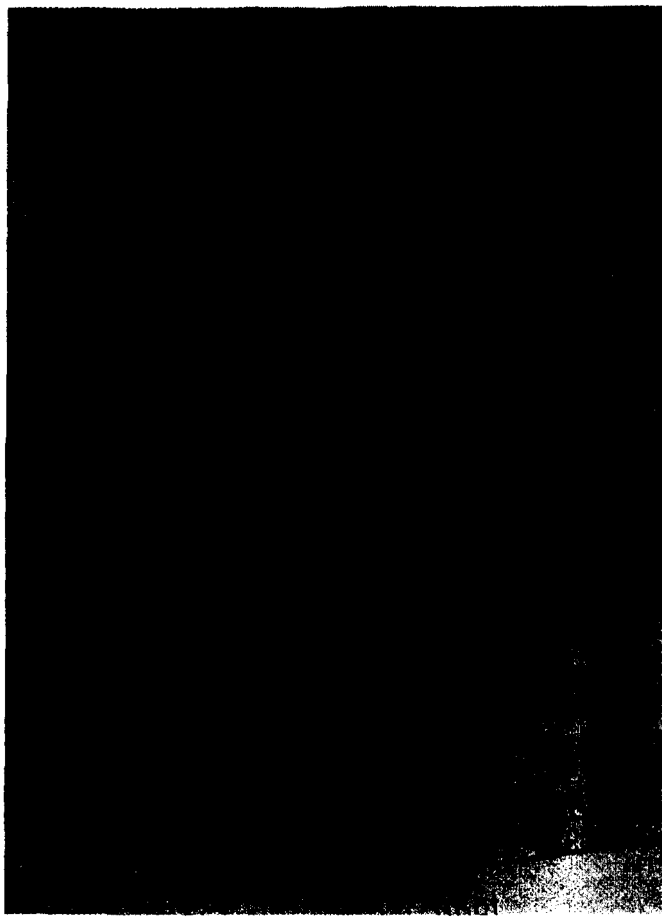
selves have given serious thought to coming out punching. But in the broad view, we realize that this is not about cable TV, nor is it about the joint venture. It is not about, nor should it be about, protecting or insulating individual competitors. This is about preserving economically and socially healthy competition. It is about the customer.

Last March, we filed a response to a Cablevision motion which asked DTE to delay approval of Boston Edison's holding company. We also issued our only press release on the matter—we felt it was necessary to clarify our position publicly for our customers, shareholders, and employees. We pointed out that Cablevision's motion was an effort to protect its monopoly; and we noted that DTE had previously rejected Cablevision as a full participant in the holding company proceeding because the company's interests stemmed from those of a competitor, "not from the concern of Boston Edison's customers." We also noted that Cablevision's motion raised other issues that have been repeatedly rejected by DTE. (Last April, by the way, DTE approved the formation of the new holding company, BEC Energy.)

Our basic arguments are broadly applicable. There is a national recognition that competition is essential and that some obstructions are unnecessarily curtailing the maximum benefit for consumers.

"Two years after Congressional passage of the landmark Telecommunications Act, many communities still have not seen the promised savings and choice in local telephone and cable service," according to the February 5, 1998, *Business Wire*. "This is primarily due to local monopolies blocking competition. Estimates say that consumers are losing $10 billion in savings every year without competition."

"We have a fundamentally good statute," states FCC chairman William



Dennis Johnson / Folio

As the worlds of electricity and telecommunications intersect, a technology- and consumer-driven competitive market is developing.

Kennard in a January 1998 article from the *Philadelphia Inquirer*. "Unfortunately, it's not being allowed to work the way Congress wrote it. It's being rewritten by judges, rewritten by companies that would rather litigate than compete.... Every time we talk to cable operators and complain about spiraling rates, they throw up their hands and say they can't do anything about it, it's programming. I want to know why consumers are bearing the brunt of programming costs."

The *New York Times* News Service reported in January 1998 that the FCC "confirmed in a report...what most cable television subscribers already knew: the information revolution has failed to create serious competition to standard cable television and that the public is paying higher rates as a result."

In the recent "Deregulation: Micromanaging the Entry and Survival of Competitors," Alfred E. Kahn of Cornell University wrote, "Government interventions must aim to provide fair competitive opportunities, not protect competitors from efficient competition.

"Competition is a dynamic process: It is that process that produces benefits for the public, over time. To the extent regulators exert themselves to establish and preserve the conditions necessary for efficient competition to work, they will be playing a socially beneficent role. To the extent they engage in actions that will enable them personally to take credit for those beneficent results, whether by decreeing quick reductions in politically sensitive rates or in pointing to competitors whose survival they have ensured by interfering with the competitive process, they will violate the essential spirit of deregulation and competition itself."

In the worlds of electricity and telecommunications, the development of a technology- and consumer-driven competitive market is underway. There is no turning back—nor would our society want to. To business leaders and government officials it has to be *competition*. The consumers will decide which *competitors* survive. ◆